

Message Text

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11

ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 AID-05

IGA-02 TRSE-00 OMB-01 FRB-03 IO-11 /079 W

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P 170526Z JAN 76

FM AMEMBASSY DACCA

TO SECSTATE WASHDC PRIORITY 9431

C O N F I D E N T I A L DACCA 0300

PASS AID

E.O. 11652: GDS

TAGS: EAID, EFIN, IMF, US, BG

SUBJECT: NEW BDG REQUEST FOR BUDGET SUPPORT

1. PLANNING SECRETARY SYEDUZZAMAN APPROACHED ME AT LUNCH YESTERDAY TO SAY THAT GENERAL ZIA HAD ASKED HIM TO SPEAK TO ME ABOUT POSSIBILITY THAT UNITED STATES MIGHT PROVIDE \$50 MILLION IN BUDGET SUPPORT FOR BANGLADESH THIS YEAR TO MAKE UP 60-65 CRORE TAKA SHORT-FALL WHICH HAD EMERGED IN THEIR BUDGET. SYEDUZZAMAN EXPLAINED THAT BDG BUDGET HAD ORIGINALLY BEEN DRAWN UP AGAINST EXPECTATION THAT SIGNIFICANT INCREASE IN FOODGRAIN PRICE HERE ON DECEMBER FIRST WOULD GENERATE SUFFICIENT TAKAS TO BALANCE BUDGET; NEW GOVERNMENT HAD DECIDED, HOWEVER, THAT SHARP RISE IN THESE PRICES WAS POLITICALLY INEXPEDIENT AT THIS TIME AND THE RESULT OF THAT DECISION WOULD BE THE 60-65 CRORE SHORT-FALL WHICH HE HAD MENTIONED. GENERAL ZIA HOPED THAT U.S. COULD FIND A WAY TO MAKE THIS BUDGET SUPPORT POSSIBLE THOUGHT PERHAPS THE AID MIGHT NOT BE LABELLED SPECIFICALLY AS "BUDGET SUPPORT"; FOR EXAMPLE, U.S. MIGHT PROVIDE COMMODITY AID, THE SALE OF WHICH COULD GENERATE THE REQUIRED TAKAS. SINCE IT WAS THE CURRENT BUDGET WHICH WAS AT ISSUE, THIS AID WOULD HAVE TO COME QUICKLY.

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2. I TOLD SYEDUZZAMAN THAT I WOULD REPORT GENERAL ZIA'S

REQUEST TO WASHINGTON AND THAT HE COULD ASSURE THE GENERAL THAT IT WOULD RECEIVE SYMPATHETIC AND CAREFUL CONSIDERATION. NEVERTHELESS, I SAID, I COULD NOT LEAVE THEM WITH THE IMPRESSION THAT THE PROSPECTS FOR SUCH ASSISTANCE WERE PROMISING. I POINTED OUT THAT THE PRESENT LEVEL OF OUR AID COMMITMENTS WAS ALREADY EXTREMELY HIGH AND THAT THE STATE OF OUR AID BUDGETARY PROCEDURES FOR THIS YEAR WERE ALSO WELL ADVANCED SO THAT I DID NOT READILY SEE HOW WE COULD MAKE PROVISION FOR ANOTHER \$50 MILLION IN THIS KIND OF ASSISTANCE. SYEDUZZAMAN SAID THAT HE APPRECIATED THIS AND THAT HE HAD WARNED GENERAL ZIA OF THE DIFFICULTIES SUCH A REQUEST WOULD POSE FOR US. HE SAID THAT ZIA HAD ASKED THAT THE REQUEST BE MADE IN ANY CASE. HE ADDED THAT THEY HAD NOT YET INFORMED THEIR EMBASSY IN WASHINGTON ABOUT THIS AND THAT WE WOULD BE THE MAIN CHANNEL FOR THE REQUEST.

3. I ASKED IF THEY WERE MAKING A SIMILAR APPEAL TO ANY OTHER GOVERNMENT. SYEDUZZAMAN SAID THEY WERE NOT, AT LEAST FOR THE TIME BEING. HE SAID WE WERE THE ONLY COUNTRY WITH THE RESOURCES TO MEET SUCH A REQUEST AND ALSO THE ONLY COUNTRY WITH A HISTORY OF THIS KIND OF ASSISTANCE. HE ADDED THAT THE ONLY WAY THEY COULD MEET THE SHORT-FALL WAS THROUGH DEFICIT FINANCING AND THIS WOULD RUN COUNTER TO COMMITMENTS THEY HAD MADE TO THE IMF UNDER THEIR STANDBY AGREEMENT.

4. I ASSUME THERE IS LITTLE OR NO PROSPECT THAT WE CAN MEET GENERAL ZIA'S REQUEST AND INDEED BELIEVE THAT IT WOULD BE UNWISE FOR US TO DO SO EVEN IF FUNDS WERE AVAILABLE. IF WE WERE TO GRANT THIS REQUEST, IT WOULD HAVE A MAJOR IMPACT ON THE BDG IMPLEMENTATION OF ITS COMMITMENTS TO THE IMF UNDER THE CURRENT STABILIZATION PROGRAM, WHICH IS TO BE REVIEWED WITH THE FUND HERE IN FEBRUARY OR MARCH. THE BDG LAST JUNE STATED ITS INTENTION, IN LETTER OF INTENT TO IMF, TO AVOID DEFICIT FINANCING AND ALSO TO RAISE ISSUE PRICES OF RATIONED FOODGRAINS. TO A SIGNIFICANT EXTENT, THE BDG'S ABILITY TO MEET THE FIRST OF THESE REQUIREMENTS IS DEPENDENT ON ITS MEETING THE SECOND. THE PROVISION OF \$50 MILLION IN ADDITIONAL U.S. ASSISTANCE WOULD GREATLY REDUCE THE BDG INCENTIVE TO RAISE REVENUES AT HOME, THROUGH INCREASE IN RATION PRICES OR OTHER MEASURES.

5. I BELIEVE IT WOULD BE USEFUL TO REPLY AS SOON AS
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POSSIBLE SO THAT BDG CAN BEGIN CONCENTRATING ON OTHER
SOLUTION TO THIS PROBLEM.
BOSTER

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Message Attributes

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Margaret P. Grafeld
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04 MAY 2006

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